

## PROPOSED CHARGING LETTER

July 14, 2010

Mr. Timothy J. Romenesko  
President  
AAR International, Inc.  
1100 North Wood Dale Road  
Wood Dale, IL 60191

Re: Regarding Violations of the Arms Export Control Act and the  
International Traffic in Arms Regulations

Dear Mr. Romenesko:

The Department of State ("Department") charges AAR International, Inc. ("Respondent") with violations of the Arms Export Control Act ("AECA") (22 U.S.C. §§ 2778-2780) and the International Traffic in Arms Regulations ("ITAR") (22 C.F.R. Parts 120-130) in connection with the unauthorized export of defense articles, to include technical data, by Presidential Airways, Inc. (which, together with its affiliates Aviation Worldwide Services, LLC; Air Quest, Inc.; STI Aviation, Inc.; and EP Aviation, LLC, is hereafter collectively referred to as "Presidential"). A total of 13 violations are alleged at this time, as described under the "Charges" section below.

AAR CORP., the ultimate parent company of Respondent, through its indirect wholly-owned subsidiary AAR Airlift, LLC ("AAR Airlift"), has recently purchased Presidential. The Department acknowledges that the violations described in this proposed charging letter took place prior to AAR Airlift's purchase of Presidential and did not involve Respondent in any way. Accordingly, Respondent does not have actual knowledge of the specific details of Presidential's AECA and ITAR violations and is assuming, for purposes of this proposed charging letter and without verification, the accuracy of the description of the violations as set forth herein. The Department further acknowledges that

Respondent met with the Department prior to its purchase of Presidential to assist in resolving this matter.

The essential facts constituting the alleged violations are described herein. The Department reserves the right to amend this proposed charging letter, including through a revision to incorporate additional charges stemming from the same misconduct of Presidential in these matters. Please be advised that this proposed charging letter, pursuant to 22 C.F.R. §128.3, provides notice of our intent to impose debarment or civil penalties or both in accordance with 22 C.F.R. §127.7 and §127.10.

When determining the charges to pursue, the Department considered mitigating factors, including that all of the violations were committed before AAR Airlift purchased Presidential, that the majority of Presidential's violations were committed while Presidential was servicing U.S. Government programs, that Presidential has already implemented remedial compliance measures, and that Respondent has agreed to implement additional improvements to Presidential's compliance program.

At the same time, the Department considered aggravating factors in determining what charges to pursue, including Presidential's historic lack of sufficient ITAR oversight prior to AAR Airlift's acquisition of Presidential.

## BACKGROUND

### General Overview

AAR CORP. has provided parts supply and logistics support solutions to the aviation and aerospace industries for nearly sixty years. In the last ten years, AAR CORP. has significantly expanded its business to support U.S. Government programs, including defense programs. AAR CORP. currently operates three business segments: Aviation Supply Chain; Maintenance, Repair and Overhaul (MRO); and Structures and Systems involving various integration and precision fabrication. With the acquisition of Presidential, AAR CORP. will establish a fourth business segment – "Government and Defense Services."

Prior to AAR Airlift's acquisition of Presidential, Presidential was involved in several violations of the ITAR. Presidential's disclosures demonstrated a lack of commitment to comply with the ITAR.



UNAUTHORIZED EXPORTS OF DEFENSE ARTICLES, INCLUDING  
SIGNIFICANT MILITARY EQUIPMENT

In October 2007, Presidential submitted a voluntary disclosure on the unauthorized export of defense articles to Iraq, including missile warning systems and commercial rotary-wing aircraft modified for military use by Presidential. These unauthorized exports were in support of U.S. military activities as part of Operation Iraqi Freedom (OIF), pursuant to a contract with the U.S. Department of State. The missile warning system was significant military equipment.

Presidential stated that this violation occurred because it was unaware of its legal and regulatory obligations when it exported the defense articles. This contention, however, was not supported by the record. Prior to disclosing this violation, Presidential had obtained 26 different authorizations from the Department for a variety of defense articles, including some of the same articles identified in Presidential's disclosure. Presidential's senior officials and certain compliance personnel were directly involved in making these unauthorized exports.

Subsequently, Presidential discovered more ITAR violations and submitted additional voluntary disclosures. The following provides a summary of all known ITAR violations committed by Presidential between 2006 and 2009:

1. From May 2006 to August 2006, Presidential, without authorization, exported to Iraq for its use in support of the U.S. State Department's Worldwide Personal Protective Services contract, five commercial Bell 412 aircraft modified for military use. The modification included five AAR-47 Missile Warning Systems, five ALE-47 Flare Dispensing Systems, five countermeasure components, five TFM 138M Communication Radios, five Garmin 165 GPS Systems, and eight Gun Mounts. Presidential exported two of these aircraft via Nassau Bahamas, and the other two via the United Arab Emirates.
2. Presidential failed to obtain a DSP-83, Non-Transfer and Use Certificate, for the export of the countermeasure systems and militarily modified Bell 412 aircraft, which are significant military equipment, for Presidential's use in Iraq in support of the U.S. State Department's Worldwide Personal Protective Services contract.
3. From 2004 to 2007, Presidential, without authorization, exported at least 11 Collins ARC-182 and Raytheon ARC-164 UHF band radios to U.S.

persons working for Presidential in Afghanistan (eight units) and Burkina Faso (three units) in support of U.S. Government contracts. Two of these radios were installed in Presidential's aircraft by Presidential's personnel in Afghanistan and the remaining were installed by Presidential in the U.S. or Australia and either used by Presidential in or transshipped through 35 foreign countries.

4. Between November 2004 and August 2008, Presidential, without authorization, exported five ARC-164 radios, three ARC-182 radios, two ARC-182 Remotes, one Receiver-Transmitter, and one UHF Transceiver to U.S. persons working for Presidential in Afghanistan to support U.S. Government contracts in Operation Enduring Freedom. Presidential's personnel installed these radios on the CASA 235, CASA 212, and Metro 23 civilian aircraft for use by Presidential in Afghanistan. Also, Presidential installed four of these radios in Afghanistan and Australia. Additionally, some of these radios were either operated in or transshipped through 19 foreign countries by U.S. persons employed by Presidential.
5. Between 2004 and 2007, Presidential, without authorization, exported three ARC-164 radios to Iraq, where Presidential installed the radios on the Bell 412 aircraft for its use under its contract with the U.S. Department of State in support of Operation Iraqi Freedom.
6. In April 2009, Presidential, without authorization, exported three ARC-182 radios to U.S. persons working for Presidential in Afghanistan in support of U.S. Government contracts in Operation Enduring Freedom. Presidential also failed to obtain a DSP-83 for the export of the 14 Collins ARC-182, as well as Raytheon ARC-164 UHF band radios, both of which are significant military equipment.
7. Between May 2008 and March 2009, Presidential, without authorization, exported 124 Puma helicopter components to Afghanistan in nine separate shipments to U.S. persons employed by Presidential pursuant to U.S. Government contracts in support of Operation Enduring Freedom.
8. In July 2008, Presidential, without authorization, exported to Eurocopter's German facility three Puma helicopter components and associated technical data involving wiring diagrams for the installation of the commercial Garmin global positioning system in the helicopter.



Subsequently, Presidential, without authorization, re-exported the helicopters containing these components to Afghanistan to support U.S. Government contracts in Operation Enduring Freedom.

9. In October 2008, Presidential, without authorization, exported four Puma helicopter components to Singapore to be installed on Presidential's helicopters by Eurocopter. Subsequently, Presidential without authorization re-exported the helicopters containing these components to Eurocopter's facility in Romania.

### JURISDICTION

Respondent is a corporation organized under the laws of the State of Illinois.

Respondent is a U.S. person within the meaning of the AECA and § 120.15 of the ITAR, and is subject to the jurisdiction of the United States.

During the period covered by the violations set forth herein, AAR CORP., through various subsidiaries, was engaged in the manufacture and export of defense articles, and Respondent was registered as a manufacturer/exporter with the Department of State, Directorate of Defense Trade Controls ("DDTC") in accordance with section 38 of the AECA and § 122.1 of the ITAR.

The defense articles associated with the violations set forth herein are designated as controlled under various categories of the U.S. Munitions list ("USML"), § 121.1 of the ITAR. These defense articles include the following items:

The gun mount outlined above is controlled under Category II(c) of the USML, § 121.1 of the ITAR.

The militarily modified Bell 412 aircraft outlined above are controlled under Category VIII(a) of the USML, § 121.1 of the ITAR. The modified Bell 412 aircraft are further defined as SME, requiring a DSP-83.

Puma helicopter components outlined above are controlled under Category VIII(h) of the USML, § 121.1 of the ITAR.

The Rockwell Collins ARC-182 and Raytheon ARC-164 UHF Band Radios; and TFM 138M Communication Radio and associated parts outlined above are controlled under Categories XI(a) and XI(c) of the USML, § 121.1 of the ITAR. The Rockwell Collins ARC-182 and Raytheon ARC-164 UHF Band Radios, and TFM 138M Communication Radio are further defined as SME, requiring a DSP-83.

The AAR-47 Missile Warning System, ALE-47 Flare Dispensing System, and associated countermeasure components, outlined above are controlled under Categories XI(a) and XI(c) of the USML, § 121.1 of the ITAR. The AAR-47 Missile Warning System and ALE-47 Flare Dispensing System are further defined as SME, requiring a DSP-83.

### REQUIREMENTS

Part 121 of the ITAR identifies the items that are defense articles, technical data, and defense services pursuant to section 38 of the AECA.

Section 123.1(a) provides that any person who intends to export or to import temporarily a defense article must obtain the approval of the Directorate of Defense Trade Controls (DDTC) prior to the export or temporary import, unless the export or temporary import qualifies for an exemption under the provisions of this subchapter.

Section 123.10(a) of the ITAR provides that a Non-Transfer and Use Certificate (Form DSP-83) is required for the export of significant military equipment (SME) and classified technical data.

Section 127.1(a)(1) of the ITAR provides that it is unlawful to export or attempt to export from the United States, or to re-export or retransfer or attempt to re-export or retransfer from one foreign destination to another foreign destination by a U.S. person of any defense article or technical data or to furnish any defense service for which a license or written approval is required by the ITAR without first obtaining the required license or written approval from DDTC.

### CHARGES



Charges [1-12] – Unauthorized Exports of Defense Articles, including Significant Military Equipment (SME)

Presidential violated § 127.1(a)(1) of the ITAR 12 times when Presidential, without authorization, exported USML Categories VIII and XI articles to Afghanistan, the Bahamas, Burkina Faso, and Iraq.

Charge [13] – Failure to Obtain DSP-83s Certificates

Presidential violated § 123.10(a) and § 127.1 of the ITAR one (1) time when Presidential failed to obtain a Non-Transfer and Use Certificate (Form DSP-83) for the export and re-export of Categories VIII and XI SME defense articles.

ADMINISTRATIVE PROCEEDINGS

Pursuant to Part 128 of the ITAR, administrative proceedings are instituted by means of a charging letter served against a respondent. The purpose of administrative proceedings is to obtain an Order imposing civil administrative sanctions, to include debarment and civil penalties. The Order issued may include an appropriate period of debarment in accordance with 22 C.F.R. §127.7, which shall generally be for a period of three years, but in any event will continue until an application for reinstatement is submitted and approved. Civil penalties, not to exceed \$500,000 per violation, may be imposed as well in accordance with section 38(e) of the AECA and 22 C.F.R. §127.10.

A respondent has certain rights in such proceedings as described in Part 128 of the ITAR. Currently, this is a proposed charging letter. In the event that you are served with a charging letter, however, you are advised of the following matters: You are required to answer the charging letter within 30 days after service. If you fail to answer the charging letter, your failure to answer will be taken as an admission of the truth of the charges. You are entitled to an oral hearing, if a written demand for one is filed with the answer, or within seven (7) days after service of the answer. You may, if so desired, be represented by counsel of your choosing.

Additionally, in the event that you are served with a charging letter, your answer, written demand for oral hearing (if any) and supporting evidence required by § 128.5(b) of the ITAR shall be in duplicate and mailed to the administrative law judge designated by the Department to hear the case. The U.S. Coast Guard

provides administrative law judge services in connection with these matters, so the answer should be mailed to the administrative law judge at the following address: USCG, Office of Administrative Law Judges G-CJ, 2100 Second Street, SW Room 6302, Washington, D.C. 20593. A copy shall be simultaneously mailed to the Managing Director, Directorate of Defense Trade Controls, SA-1 Room 1200, Department of State, Washington, DC 20522-0112, or delivered to 2401 E Street, NW, Washington, DC addressed to Managing Director, Directorate of Defense Trade Controls, SA-1, Room 1200, Department of State, Washington, DC 20037.

If you do not demand an oral hearing, you must transmit within seven (7) days after the service of your answer the original or photocopies of all correspondence, papers, records, affidavits, and other documentary or written evidence having any bearing upon or connection with the matters in issue. Please be advised also that charging letters may be amended from time to time, upon reasonable notice. Furthermore, pursuant to § 128.11 of the ITAR, cases may be settled through consent agreements, including after service of a proposed charging letter.

The Department of State's decision to pursue one type of enforcement action does not preclude it, or any other department or agency, from pursuing another type of enforcement action. Be advised that the U.S. Government is free to pursue civil, administrative, and/or criminal enforcement for violations of the AECA and the ITAR.

Sincerely,

Lisa V. Studtmann  
Director  
Office of Defense Trade Controls  
Compliance